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STATE FOR WHA, EEB
TREASURY FOR BRIAN O'NEILL, ANNA JEWELL, SARA SENICH

E.O. 12958: DECL: 10/09/2018
TAGS: [EFIN](#) [EAID](#) [ENRG](#) [EPET](#) [PGOV](#) [PREL](#) [IMF](#) [HO](#)
SUBJECT: FINANCE MINISTER DISCUSSES CHALLENGES BEFORE TRIP
TO WASHINGTON

REF: TEGUCIGALPA 772 AND REFTELS

Classified By: Ambassador Hugo Llorens for reasons 1.4 (b) and (d)

¶1. (C) Summary: Finance Minister Rebeca Santos called on Ambassador on the eve of her trip to Washington to discuss the overall macroeconomic picture in Honduras, particularly focusing on the challenges she will face at IMF meetings in Washington starting October 11. Santos said she believes Honduras has made a good faith effort to adhere to April's Precautionary Standby Agreement (reftel), meeting all its fiscal targets and missing only the exchange rate goals on the monetary side. She lamented the Honduran media's role in causing a disproportionate reaction among speculators to that adjustment. End Summary.

¶2. (C) Santos said Honduras urgently needs macroeconomic stability going into an election year, and that political will to adhere to the IMF program wanes every day. She said President Zelaya is singularly focused on economic growth and poverty reduction statistics, and believes the IMF agreement is not bringing any direct benefit to Honduras. He hopes that the USD 100 million in bond placements through ALBA will put Honduras in a "comfortable" macroeconomic position until at least the end of the year. She also argued that the IMF should show flexibility to Honduras given that the financial crisis in the United States has changed the picture for Honduras and compounded the oil and price shocks to generate both higher inflation and lower growth. (Santos recently stated that the GOH had revised its official GDP growth forecast for this year downward to 4 percent, compared with last year's 6.3 percent.)

¶3. (C) Santos is concerned about waning support from the donor community, adding that she was disturbed by the attempt by the French and German delegates to block a USD 10 million World Bank disbursement designed to help Honduras cope with rising global food prices. She was insulted these delegates had compared Honduras to an African country, saying that Honduras attracts almost USD 1 billion in foreign direct investment each year. (Note: The World Bank, Germany and the EC are reprogramming budget support into technical assistance projects as a signal that they no longer trust the GOH to responsibly manage direct budget support funds. End Note)

¶4. (C) Ambassador committed to convey to Washington her hope that the IMF will show greater flexibility in the face of a dramatically different global financial picture since the agreement was signed last April. He also agreed to discuss with President Zelaya at their next meeting, perhaps next week, the importance of remaining committed to the IMF program to demonstrate to the international investment community a commitment to macroeconomic stability. Santos told Ambassador she believes Zelaya will end up approving the minimum necessary concessions to the IMF in order to prevent

the program from being declared indefinitely off track. IMF resrep has told econ officers he believes any commitment to exchange rate flexibility, no matter how small, would be received well by the IMF.

15. (C) Comment: Reserves did appear to stabilize in mid-September after dropping sharply in July and August. Inflation, which had reached 14.5 percent year on year, also demonstrated a slight drop last month. Nevertheless, the biggest risk to Honduras may be remittances, which are projected to grow 11 percent this year. If they instead decline or go flat, as Guatemala and El Salvador have recently reported, international reserves could erode quickly (Note: Remittances last year totaled about USD 2.6 billion -- roughly equal to the year-end level of reserves. End Note). Santos is a serious player who is trying to do the right thing in a volatile political environment while accommodating her boss's wishes, including giving in to salary demands from striking teachers and giving public sector workers and across-the-board pay raise. It will be up to her colleague Edwin Araque, President of the Central Bank, to demonstrate a willingness to raise the base interest rate and introduce flexibility to the exchange rate. End Comment.
LLORENS